



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

June 11, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 United States Code, Section 2688, Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

A summary of the economic analyses supporting privatization of the Fort Leavenworth, Kansas, water and wastewater distribution systems is enclosed. Privatization is expected to result in an estimated annual cost avoidance of \$415,336 for the water system and \$278,559 for the wastewater system when compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the water and wastewater utility systems and award a fifty-year contract for utility services at Fort Leavenworth, Kansas, to the American Water Services Inc. 21 days after the receipt of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "William A. Armbruster", is positioned above the printed name.

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



**Department of the Army
Fort Leavenworth, Kansas
Privatization of the Water and
Wastewater Utility Systems**

Economic Analysis

May 2003

Executive Summary: The economic analyses conducted for the water and wastewater utility systems at Fort Leavenworth each demonstrate that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the water system resulted in an estimated annual cost avoidance of \$415,336 and the economic analysis for the wastewater system resulted in an estimated annual cost avoidance of \$278,559 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System:

Water System: Source water is obtained from five wells located in the northeast corner of the Installation. Each of the five pumps on the wells has a nominal capacity of 1,200 gallons per minute (gpm). The water delivery system consists of the following:

- Water distribution system: 317,852 Linear Feet (pipe diameters range from 2 through 20 inches)
- Backup Electric Generator: 800 kilovolt, diesel fueled
- Pumps at water treatment plant: 3 (approximately 1,735 gpm each)
- Aboveground Water Tanks: 3 (3.3 million gallon total capacity)

Wastewater system: The City of Leavenworth treats all wastewater that is collected. The wastewater delivery system consists of the following:

- Wastewater Collection System: 152,000 Linear Feet (73% of the pipe vitrified clay, 22% PVC, 5% Cast Iron)
- Wastewater Manholes: estimated at 550
- Lift Stations: 11
- Backup generator sets: 3
- Holding tanks: 4 (1,000-gallon capacity each)

Description of the Government's "Should Cost" estimate (SCE): The Government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the water and wastewater utility systems. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on water and wastewater utility systems.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility systems in return for conveying the systems to the contractor. The Government determined fair market value is \$437,227 for the water system and \$337,562 for the wastewater system.

Procurement History: The Government received proposals from two separate contractors, American Water Services Inc. (AWS) and American States Utility Services (ASUS). The Source Selection Evaluation Board met in February 2002 and determined that both offerors were capable of meeting the technical requirements of the Request for Proposal. Each offeror submitted revised

proposals. The Government selected American Water Services as the best value offeror in April 2003.

Life Cycle Cost Analysis (LCCA): The privatization alternative was evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of the two alternatives were developed utilizing ECONPACK. The results of the LCCA are summarized in the following tables:

Water System:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 44.4 M	\$ 1.8 M	-	-
Contractor Ownership	50	\$ 33.9 M	\$ 1.3 M	\$ 0.5 M	27.7 %

Wastewater System:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 20.5 M	\$.813 M	-	-
Contractor Ownership	50	\$ 13.5 M	\$.535 M	\$ 0.278 M	34.2 %

Privatization of the Fort Leavenworth water and wastewater utility systems under AWS' proposal is expected to result in an estimated annual cost avoidance of

\$415,336 for the water system and \$278,559 for the wastewater system when compared to the respective cost of continued Government ownership and operation.

Conclusions and Recommendations: Privatization of Fort Leavenworth's Water and Wastewater Utility Systems is economical. Additionally, the following findings are provided:

1. The privatization of Fort Leavenworth's Water and Wastewater Utility Systems will eliminate the need for the Installation to perform these functions and will allow a firm whose competence is water and wastewater utility system operation and maintenance to operate and maintain the systems.

2. The privatization of Fort Leavenworth's Water and Wastewater Utility Systems assures future upgrades and additions to these systems.

3. The utility privatization action will be a cost-effective means to provide safe and reliable water and wastewater utility services to the Installation.